

Message Text

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PAGE 01 BONN 10842 091510Z

70

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FAILURE OF THE HERSTATT BANK: ALLEGED

PRESSURE BY THE FEDERAL RESERVE ON THE BUNDESBANK

1. SUMMARY. SCATTERED STORIES ARE NOW APPEARING IN THE GERMAN PRESS ON THE PROBLEM OF UNCOMPLETED SPOT FOREIGN EXCHANGE TRANSACTIONS INVOLVED IN THE HERSTATT CLOSING. SOME GERMAN PAPERS ALSO ARE REPORTING PRESSURE BY THE FEDERAL RESERVE ON THE BUNDESBANK IN THIS CONNECTION. END SUMMARY.

2. THIS WEEK'S NEWS MAGAZINE, "DER SPIEGEL" ENDS ITS ARTICLE ON HERSTATT WITH THE FOLLOWING PARAGRAPH: "A REPRESENTATIVE OF THE BEST CLUB THEREFORE ARRIVED LAST THURSDAY (I.E., JULY 4) FROM OVERSEAS: THE BOARD OF FEDERAL RESERVE SYSTEM, THE AMERICAN CENTRAL BANK SYSTEM, PROTESTED IN ALL FORM AGAINST THE WAY THE AFFAIR HERSTATT HAD BEEN HANDLED AND THE CONSEQUENCES OF THIS."

3. TODAY'S "WELT" ALSO DEALS WITH ALLEGED FEDERAL
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PAGE 02 BONN 10842 091510Z

RESERVE PRESSURE. IT REPORTS INTER ALIA: "FOR THIS

REASON REPRESENTATIVES OF THE AMERICAN FEDERAL RESERVE, THE CENTRAL BANK OF THE UNITED STATES, WANTED TO DISCUSS THE PROBLEM WITH THEIR COLLEAGUES FROM THE BUNDESBANK WITHIN THE FRAMEWORK OF A SECRET CONFERENCE IN BASEL. AS ONE HEARS FROM AMERICAN FINANCIAL CIRCLES, WASHINGTON WANTS TO PUT PRESSURE ON THE BUNDESBANK TO CREATE A SPECIAL FUND OUT OF WHICH BANKS CAN BE COMPENSATED IN CASES SIMILAR TO THE HERSTATT CASE IF THEY HAVE TRANSFERRED FOREIGN EXCHANGE TO A BANK WHICH A SHORT TIME THEREAFTER GOES INTO BANKRUPTCY AND FOR THIS REASON IS NO LONGER ABLE TO FULFILL ITS OBLIGATION (RESULTING FROM THE TRANSFER). EXACTLY THIS IS WHAT HAPPENED IN THE CASE OF THE COLOGNE BANK HERSTATT. ... IN THIS CONNECTION WALLSTREET NOTES CRITICALLY THAT THE DEUTSCHE BUNDESBANK DID PROMISE CHEAP CREDIT FOR GERMAN BANKS HURT BY THE HERSTATT BANKRUPTCY, BUT DID NOTHING ON THE INTERNATIONAL SIDE WHERE--ACCORDING TO THE NEW YORK TIMES--THE TENSION IS INCREASING. NEW YORK RECOGNIZES THAT THE BUNDESBANK DOES NOT HAVE LEGAL AUTHORITY TO DO THIS (ON THE INTERNATIONAL SIDE), BUT A BUNDESBANK RECOMMENDATION TO THIS EFFECT TO THE COLOGNE COURT WHICH DEALS WITH THE HERSTATT CASE MIGHT CALM MATTERS. THE AMERICANS WANT TO REQUEST FROM THE BUNDESBANK REPRESENTATIVES AN IMMEDIATE SETTLEMENT OF THE HERSTATT DEBTS. IN THE FUTURE THE BUNDESBANK SHOULD BECOME DIRECTLY RESPONSIBLE FOR FOREIGN EXCHANGE OBLIGATIONS OF GERMAN COMMERCIAL BANKS."

4. THE BUNDESBANK IS ALSO COMING UNDER INCREASING CRITICISM WITHIN GERMANY ON ITS HANDLING OF THE HERSTATT AFFAIR. THIS CRITICISM IS CONCENTRATING, HOWEVER, ON THE BUNDESBANK'S DEALING IN THE DAYS IMMEDIATELY PRIOR TO THE BANKRUPTCY WITH ONLY THE BIG THREE GERMAN BANKS IN ITS ATTEMPT TO ARRANGE A RESCUE OPERATION FOR HERSTATT. PARTICULARLY THE WESTDEUTSCHE LANDESBANK AND THE BANK FUER GEMEINWIRTSCHAFT ARE ARGUING THAT IF THEY HAD BEEN BROUGHT INTO THE PICTURE, A SUCCESSFUL RESCUE OPERATION

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PAGE 03 BONN 10842 091510Z

MIGHT HAVE BEEN ARRANGED.
HILLENBRAND

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